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***ONE HUNDRED TWENTY-FIFTH
ANNUAL REPORT
NORTH CAROLINA BOARD OF PHARMACY
2006***



ONE HUNDRED TWENTY-FIFTH

ANNUAL REPORT

NORTH CAROLINA

BOARD OF PHARMACY

2006



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ONE HUNDRED TWENTY-FIFTH ANNUAL REPORT
NORTH CAROLINA BOARD OF PHARMACY

October 1, 2005 – September 30, 2006

MEMBERS AND ORGANIZATION

COMMISSIONED BY HIS EXCELLENCY THE GOVERNOR OF NORTH CAROLINA

Rebecca W. Chater, Asheville, President Term expires April 30, 2012
Wallace E. Nelson, Hertford, Vice President Term expires April 30, 2010
Betty H. Dennis, Chapel Hill Term expires April 30, 2012
L. Stan Haywood, Asheboro Term expires April 30, 2010
R. Joseph McLaughlin, Jr., New Bern Term expires April 30, 2011
J. Parker Chesson, Jr., Durham Term expires April 30, 2010

Executive Director
Jack W. Campbell IV, Chapel Hill

General Counsel
Clinton R. Pinyan, Greensboro

Investigators/Inspectors
Karen Matthew, Director, Greensboro
Joshua Kohler, Assistant Director, Raleigh
Krystal Brashears, Wilson
Amy Cook, Charlotte
Melissa Cummings, Rocky Mount
Thomas Currin, Garner
Holly Price Hunt, Lincolnton
Jason Smith, Matthews
J. Ken Wilkins, Walnut Cove

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Chapel Hill, North Carolina
July 1, 2007

To His Excellency
Governor Michael F. Easley
Raleigh, North Carolina

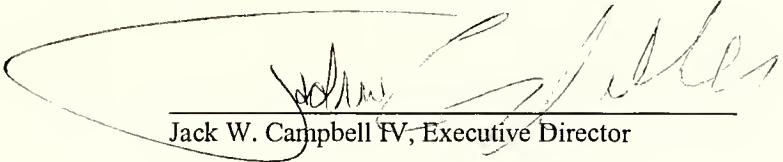
Dear Governor Easley:

In compliance with Article 4, Section 90-57 of the General Statutes of North Carolina, the Board of Pharmacy is pleased to submit to you the One Hundred Twenty-Fifth Annual Report of the North Carolina Board of Pharmacy. This report contains the proceedings of the Board for the fiscal year ending September 30, 2006.

Respectfully yours,

NORTH CAROLINA BOARD OF PHARMACY

by:



Jack W. Campbell FV, Executive Director

Introduction

The period from October 1, 2005 through September 30, 2006 marked one of transition for the Board of Pharmacy. In early 2006, David R. Work, who served as the Board's fourth executive director for over thirty years, retired. Mr. Work's contributions to the Board and to the practice of pharmacy in North Carolina and nationally can only be described as superlative. Indeed, only weeks before the writing of this report, Mr. Work was awarded an honorary doctor of humane letters by the Wingate University School of Pharmacy for his exemplary and sustained contributions to the practice of pharmacy. North Carolina was fortunate to benefit from Mr. Work's unstinting service to the public for so many years.

Personnel Changes at the Board

Board Members

In May 2006, Robert L. Crocker of Farmville, completed his second five-year term as a Member of the Board. Mr. Crocker's ten years of service to the Board are a tribute to his leadership in, and concern for, the profession, as well as his strong interest in the protection of the public health and safety. Mr. Crocker continues to operate his own pharmacy, Best Value Drug, in Farmville and remains active in a number of pharmacy organizations.

The Board welcomed Robert Joseph "Joey" McLaughlin, Jr. of New Bern to the Board in May. Mr. McLaughlin was elected by the practicing pharmacists in North Carolina in May 2006. Mr. McLaughlin is a 1983 graduate of the University of North Carolina School of Pharmacy. He co-owns four pharmacies and seven home medical equipment businesses. He is experienced in operating independent and chain pharmacies, as well as long term care, specialty compounding, and home medical equipment.

In May 2006, North Carolina pharmacists re-elected Board Members Rebecca W. Chater of Asheville and Betty H. Dennis of Chapel Hill to a second term of service. Mrs. Chater was re-elected from District 1. Her opponent was Michael Overman of Asheville, who previously served a term as a Board Member. Dr. Dennis was re-elected from District 2. Her opponent was Jack G. Watts of Burlington, who also previously served as a Board Member. Mrs. Chater and Dr. Dennis will begin serving their second terms in May 2007.

Executive Director

In February 2006, the Board hired Jack William "Jay" Campbell IV of Hillsborough to serve as the Board's fifth Executive Director. Born in Sanford and raised in Erwin, Mr. Campbell obtained his Bachelor of Science in Pharmacy from the University of North Carolina and his Juris Doctor from the Vanderbilt University School of Law. Prior to attending law school, he practiced community pharmacy and worked as

a researcher for a pharmaceutical company. Following law school and a federal judicial clerkship, Mr. Campbell practiced as an appellate litigation attorney for eight years in Washington, D.C. and Charlotte. Mr. Campbell also serves as an adjunct professor of pharmacy law at the Wingate, Campbell, and UNC schools of pharmacy. In late 2006, he was elected president of the American Society for Pharmacy Law.

Director of Investigations and Inspections

In June 2006, Steve Hudson of Newton retired from his position as Director of Investigations and Inspections after twenty-eight years of superlative service to the Board. Mr. Hudson accepted a position with the National Association of Boards of Pharmacy as Accreditation Manager for NABP's Verified Internet Pharmacy Practice Site ("VIPPS") and Verified-Accredited Wholesale Distributors ("VAWD") programs. In this capacity, Mr. Hudson continues to serve the pharmacy profession and protect the public health and safety.

The Board hired Karen Matthew to serve as its new Director of Investigations and Inspections. Ms. Matthew received her Bachelor of Arts in Journalism from the University of North Carolina at Chapel Hill and a Bachelor of Science in Business Administration from the University of North Carolina at Greensboro. She also received her Master of Arts in Liberal Studies from UNC-Greensboro. Ms. Matthew brings with her twenty-eight years of law enforcement experience. Prior to joining the Board of Pharmacy in July 2006, she spent twenty-one years as a special agent with the North Carolina State Bureau of Investigation, nineteen of those years on the Diversion & Environmental Crimes Unit and two of those years with the Medicaid Fraud Unit.

Enforcement Activity

Specific statistics on the Board's enforcement activities are found below. Fiscal year 2006 brought about a new enforcement priority for the Board – crackdowns on pharmacies operating, or facilitating the operation of, illegal Internet-based practices.

“Internet pharmacy” poses a serious risk to the public health and safety. While the Internet can be, and is, a medium that promises benefits to pharmacists and their patients in terms of communication and education, it has become the medium of choice for unscrupulous operators who seek to provide dangerous prescription medications (including, predominately, controlled substances) to patients without any meaningful medical oversight.

The principal model of “Internet pharmacy” in the United States involves the establishment of a website on which a consumer fills out a questionnaire. In response to that questionnaire – and without any meaningful further interaction between a prescriber and a patient – a prescriber (often located in Florida or Puerto Rico) immediately dashes off a “prescription.” The prescription is transmitted to a brick-and-mortar pharmacy,

which fills it and ships to the customer. Board experience shows that the usual “diagnoses” of these customers are: (1) pain, to facilitate access to hydrocodone and other dangerous narcotic medications, which are Schedule II and III controlled substances; (2) anxiety, to facilitate access to benzodiazepines such as alprazolam and lorazepam, which are Schedule IV controlled substances; (3) weight control problem, to facilitate access to phentermine, a Schedule IV controlled substance; (4) insomnia, to facilitate access to Ambien, a Schedule IV controlled substance; and (5) impotence, to facilitate access to Viagra, Levitra, and Cialis.

Prescriptions issued pursuant to Internet questionnaires, telephone-only consultations, and the like are not valid under the North Carolina Pharmacy Practice Act and rules, the North Carolina Medical Practice Act, the North Carolina Controlled Substances Act, the federal Food, Drug, and Cosmetics Act, and the federal Controlled Substances Act.

During fiscal year 2006, the Board worked closely with the Drug Enforcement Agency, the State Bureau of Investigation, and various local law enforcement to shut down illegal Internet-based “pill mills” operating in Wilmington, Fayetteville, Mooresville, and Denver. Suspected illegal operations in Charlotte closed down upon learning of the Board’s enforcement activities. Board charges against the pharmacists and permit holders involved have resulted in forfeitures of licenses and permits. Many of those involved are presently under federal criminal indictment or facing likely future indictment.

The Board is aware that in response to its enforcement activities, Internet operators have begun soliciting independent retail pharmacies to act as “fulfillment centers” for Internet-based “consulting” services. Independent retail pharmacists have cooperated with Board investigative staff to identify these Internet-based companies, which in turn led to their ceasing to do business in North Carolina. Board investigative staff has continued to provide information on these companies to federal law enforcement.

Other Issues of Note

Website Redesign. In June 2006, owing largely to the hard work of Board staff members Kristin Moore and Tom Buedel, the Board completed a complete overhaul and redesign of its web site, www.ncbop.org. The website is now a far more pharmacist- and consumer-friendly tool. The website is updated frequently with news items, health alerts, Medicare/Medicaid bulletins, recall notices, and other timely information for pharmacists. The web site features a lengthy, searchable “Frequently Asked Questions (FAQ)” section that provides ready guidance to pharmacists on common legal and practice issues.

Emergency Preparedness. The Board is working closely with North Carolina Public Health Preparedness and Response to develop plans and contingencies. In

particular, the Board has worked with Amanda Fuller, a clinical pharmacist and the CHEMPACK and SNS coordinator, to develop a database of pharmacist and pharmacy technician volunteers who can be called upon in the event of emergency.

National Recognition. Board Members and staff continue to be viewed as national leaders on issues of pharmacy practice and regulation. Members or staff presented talks at the American Pharmacists Association annual meeting, the National Association of Boards of Pharmacy annual meeting, the NABP District III annual meeting, and the MALTAGON annual meeting.

N.C.G.S. § 93B-2 Report Contents

Before providing the specific disclosures required by N.C.G.S. § 93B-2, some prefatory comments are appropriate. The census of registrants for fiscal year 2006 is provided immediately below. The number of pharmacists and pharmacies licensed and permitted in North Carolina continues to increase, with a net gain of approximately 500 licensed pharmacists (almost all of whom elected to practice in North Carolina) and 50 permitted pharmacies (most growth due to chain drug store openings) during fiscal year 2006. The number of permitted durable medical equipment facilities increased by 8% (647 to 697). The number of registered pharmacy technicians also increased substantially, up 6% (9,905 to 10,576).

Board staff expects these trends to continue, with the possible exception of number of pharmacies, particularly independent retail pharmacies. Independent retail pharmacies continue to be squeezed economically by drastic reductions in prescription drug reimbursement rates from federal, state, and private third-party prescription drug payers. The Board is concerned that if present reimbursement trends continue, the economic survival of some pharmacies will be jeopardized. And, in some rural areas of North Carolina, closure of even a few pharmacies could lead to significant pharmacy access problems for North Carolina residents.

Board staff is engaged in efforts to convert the license and permit renewal process to an on-line system. In fiscal year 2006, Board staff presented on-line renewal as an option. In the near term, on-line renewal will be transitioned to a mandatory process, which promises to greatly improve the speed and efficiency of the renewal process with obvious benefits to licensees, permittees, and the Board. Board staff has begun exploring converting the original license, permit, and registration process to an on-line system. Such conversion presents challenges that differ from renewal due to different documentation that must accompany original applications. Staff is confident, however, that these challenges can and will be met.

**North Carolina Board of Pharmacy
Census of Registrants
Fiscal Year 2006**

PHARMACISTS

Total number of active pharmacists licensed as of September 30, 2006	10,951
Total number of active pharmacists residing in North Carolina	8,557
Inactive pharmacists residing in North Carolina.....	1,456
Total number of active pharmacists residing outside of North Carolina	2,394
Total number deceased in FY 2006	18

Breakdown of Employment Settings In-State

Retail Pharmacy – Chain	2,930
Retail Pharmacy – Independent	1,336
Hospital Pharmacies	1,852
Nursing Homes	129
Government, Health Departments and Teaching.....	139
Pharmaceutical Manufacturing and Wholesale Sales	136
Other	1,145
Sales and Research.....	126
Unknown Position.....	764

Age and Gender of Active Pharmacists in North Carolina

Under 30 years of age	970
30 – 39 years of age	2,577
40 – 49 years of age	2,071
50 – 59 years of age	1,799
60 – 65 years of age	580
Over 65 years of age	560
In-state Pharmacists – Female	4,609
In-state Pharmacists – Male	3,948

PHARMACIES

Total in-state Pharmacy permits on roster as of September 30, 2006.....	2,263
Retail Pharmacy – Chain	1,091
Retail Pharmacy – Independent	594
Hospital Pharmacies	175
Nursing Homes	37
Health Departments	91
Free Clinics	34
IV Infusion.....	39
Others.....	202
Total out-of-state Pharmacy permits on roster as of September 30, 2006	356

DEVICE AND MEDICAL EQUIPMENT

Total DME permits on roster as of September 30, 2006.....	697
---	-----

DISPENSING PHYSICIANS

Total Physicians registered to dispense as of September 30, 2006.....	647
---	-----

PHYSICIAN ASSISTANTS AND NURSE PRACTITIONERS

Total PA's and NP's registered to dispense as of September 30, 2006	207
---	-----

PHARMACY TECHNICIANS

Total Pharmacy Technicians registered as of September 30, 2006..... 10,576

(1) *The Address of the Board, and the Names of Its Members and Officers*

Board offices are located at 6015 Farrington Road, Suite 201, Chapel Hill, NC 27514.

The Board formerly maintained a satellite investigative office in Newton, NC. With the retirement of former Director of Investigations and Inspections Steve Hudson (detailed above), the Board closed the Newton office and consolidated all operations in Chapel Hill.

The Board members and officers are noted on the cover page of this report.

(2) *The Number of Persons Who Applied to the Board for Examination*

366 persons applied to the Board for licensure by examination in fiscal year 2006.

(3) *The Number of Persons Who Were Refused Examination*

One (1) candidate was refused on the basis that the candidate did not possess the qualifications necessary to sit for examination.

(4) *The Number of Persons Who Took the Examination*

361 candidates sat for examination in fiscal year 2006. One (1) candidate withdrew from examination. Two (2) candidates did not appear for examination. One (1) candidate, noted above, was not allowed to sit for examination.

(5) *The Number of Persons to Whom Initial Licenses Were Issued*

The Board issued 324 licenses by examination in fiscal year 2006.

(6) *The Number of Persons Who Applied for License by Reciprocity or Comity*

295 persons applied for licensure by reciprocity in fiscal year 2006.

(7) *The Number of Persons Who Were Granted Licenses by Reciprocity or Comity*

283 persons were granted licensure by reciprocity in fiscal year 2006.

(8) The Number of Licenses Suspended or Revoked in Fiscal Year 2006

Total number of complaints received	458
Total number of "no action" decisions after investigation	44
Total number of "no action" decisions due to Board having no jurisdiction over complaint	4
Total number of staff letters* issued post pre-hearing conference or by informal administrative disposition	Letters of Caution 43 Letters of Concern 49 Letters of Warning 67
Total number of cases resulting in consent orders	30
Total number of cases resulting in full board hearings	5
Pharmacist licenses revoked	3
Pharmacist licenses suspended	15
Pharmacist licenses surrendered	9
Pharmacy Permit Revocations	2
Pharmacy Permit Suspensions	7
DME Permit Suspensions	2

* A "staff letter" is not deemed a formal disciplinary action.

(9) The Number of Licenses Terminated For Any Reason Other than Failure to Pay the Required Renewal Fee

Beyond the number of licenses suspended or revoked for disciplinary reasons (see number 8 above), no licenses were terminated for reasons other than failure to pay the required renewal fee.

(10) The Substance of Any Anticipated Request by the Occupational Licensing Board to the General Assembly to Amend Statutes Related to the Occupational Licensing Board

The Board of Pharmacy does not anticipate any request to the General Assembly to amend the Pharmacy Practice Act in fiscal year 2007.

(11) *The Substance of Any Anticipated Change in Rules Adopted by the Occupational Licensing Board or the Substance of Any Anticipated Adoption of New Rules By the Occupational Licensing Board*

The Board anticipates the following rule amendments in fiscal year 2007:

- (i) Amending the rules governing the issuance of pharmacy permits to define an “Internet pharmacy” and impose additional accreditation and disclosure requirements on Internet pharmacies seeking to obtain or renew North Carolina permits.
- (ii) Amending the rules governing continuing education requirements for pharmacist licensure renewal pursuant to authority specifically granted by N.C.G.S. § 90-85.17.
- (iii) Amending the rules governing pharmacist administration of vaccinations to broaden the number and type of vaccinations that pharmacists may administer.

NORTH CAROLINA BOARD OF PHARMACY

Chapel Hill, North Carolina

AUDITED FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
SEPTEMBER 30, 2006 AND 2005**

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BLACKMAN & SLOOP, CPAs, P.A.
Certified Public Accountants
1414 Raleigh Road, Suite 300
Chapel Hill, North Carolina 27517
Telephone: 919-942-8700

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North Carolina Board of Pharmacy

We have audited the accompanying statements of net assets of the North Carolina Board of Pharmacy (a nonprofit organization) as of September 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Board of Pharmacy as of September 30, 2006 and 2005, and its changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Blackman + Sloop

Chapel Hill, North Carolina
December 7, 2006

NORTH CAROLINA BOARD OF PHARMACY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the North Carolina Board of Pharmacy (the Board), for the fiscal years ended September 30, 2006 and 2005. The following financial statements and footnotes comprise our complete set of financial information. The Management's Discussion and Analysis identifies significant transactions that have financial impact and highlights favorable and unfavorable trends. Comparative data for the current year and the previous year are presented in the analysis.

Using the Financial Statements

The Board's financial report includes three financial statements: Statement of Net Assets; Statement of Revenues, Expenses and Changes in Net Assets; and Statement of Cash Flows. These financial statements are prepared in accordance with the Governmental Accounting Standards Board (GASB) principles. Effective in 2003, the Board adopted the provisions of GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Disclosures*.

The Statement of Net Assets includes all Board current and noncurrent assets and liabilities. Current assets are those that are expected to be converted to cash within one year, and current liabilities are expected to be settled within one year.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the fiscal year.

The Statement of Cash Flows reports cash from operating, capital financing, and investing activities, and is presented using the direct method.

Statement of Net Assets

The Statement of Net Assets presents a fiscal snapshot of the Board's financial position as of September 30, 2006 and 2005. The Statement provides information on current and noncurrent assets and liabilities. The data provides information on assets available to continue operations; amounts due to vendors and lending institutions; and the net assets available for expenditure by the Board.

NORTH CAROLINA BOARD OF PHARMACY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

The following table summarizes the Board's assets, liabilities and net assets at September 30, 2006 and 2005:

	2006	2005
Assets:		
Current assets	\$ 865,230	\$ 653,928
Capital assets, net	2,051,947	2,086,204
Total Assets	<u>\$ 2,917,177</u>	<u>\$ 2,740,132</u>
 Liabilities and Net Assets:		
Current liabilities	\$ 121,774	\$ 80,030
Noncurrent liabilities	1,255,304	1,317,319
Total Liabilities	<u>1,377,078</u>	<u>1,397,349</u>
 Net Assets		
Invested in capital assets - net		
of related debt	811,947	798,289
Unrestricted	728,152	544,494
Total Net Assets	<u>1,540,099</u>	<u>1,342,783</u>
 Total Liabilities and Net Assets	<u>\$ 2,917,177</u>	<u>\$ 2,740,132</u>

Current assets consist mainly of cash and cash equivalents and short term investments, which increased in the current year due to the increase in rates of fees and licenses issued. The decrease in net capital assets is attributable to the recorded depreciation expense in the current year.

The \$41,744 increase in current liabilities is primarily due to the increase in legal fees relating to the litigation against the Rules Review Commission during the year ended September 30, 2006. The decrease of \$62,015 in noncurrent liabilities is due to the monthly payments of the mortgage.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets represents the Board's results of operations. The condensed statements of the fiscal years ended September 30, 2006 and 2005, are presented as follows:

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NORTH CAROLINA BOARD OF PHARMACY

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

Statement of Revenues, Expenses and Changes in Net Assets (continued)

Operating Revenues	\$ 2,906,658	\$ 2,336,203
Operating Expenses	2,761,332	2,241,599
Operating Income	<u>145,326</u>	<u>94,604</u>
Nonoperating Revenues	<u>51,990</u>	<u>21,824</u>
Changes in Net Assets	197,316	116,428
Net Assets - Beginning of Year	1,342,783	1,226,355
Net Assets - End of Year	<u><u>\$ 1,540,099</u></u>	<u><u>\$ 1,342,783</u></u>

Operating revenues consist primarily of pharmacists and pharmacy renewals for the years ended September 30, 2006 and 2005. The increase in operating revenue is attributable to the increase in the rate of fees and licenses issued. Nonoperating revenue consists primarily of investment income. Operating expenses are related to the operation of the Board, including personnel costs, investigative costs, professional fees, supplies, utilities, and depreciation. Part of the operating expense increased approximately \$202,000 due to the litigation involved with the Rules Review Commission. The Board recorded depreciation expense of \$160,202 and \$164,004, for the year ended September 30, 2006 and 2005.

Contacting the Board's Financial Management

This financial report is designed to provide our state, pharmacists, and creditors with a general overview of the Board's finances and demonstrate accountability of all funds received. Additional financial information may be obtained by contacting the Board at 919-246-1050.

NORTH CAROLINA BOARD OF PHARMACY

STATEMENTS OF NET ASSETS

EXHIBIT A

September 30, 2006 and 2005

	<u>ASSETS</u>	
	2006	2005
CURRENT ASSETS:		
Cash and cash equivalents	\$ 454,970	\$ 561,375
Investments	400,909	16,591
Prepaid expenses	9,351	5,968
Note receivable	-	69,994
TOTAL CURRENT ASSETS	<u>865,230</u>	<u>653,928</u>
NONCURRENT ASSETS:		
Capital assets, net	<u>2,051,947</u>	<u>2,086,204</u>
TOTAL ASSETS	<u>\$ 2,917,177</u>	<u>\$ 2,740,132</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 71,617	\$ 32,106
Current portion of note payable	<u>50,157</u>	<u>47,924</u>
TOTAL CURRENT LIABILITIES	<u>121,774</u>	<u>80,030</u>
NONCURRENT LIABILITIES:		
Note payable	1,189,843	1,239,991
Accrued vacation	<u>65,461</u>	<u>77,328</u>
TOTAL NONCURRENT LIABILITIES	<u>1,255,304</u>	<u>1,317,319</u>
TOTAL LIABILITIES	<u>1,377,078</u>	<u>1,397,349</u>
NET ASSETS:		
Invested in capital assets - net of related debt	811,947	798,289
Unrestricted	<u>728,152</u>	<u>544,494</u>
TOTAL NET ASSETS	<u>1,540,099</u>	<u>1,342,783</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,917,177</u>	<u>\$ 2,740,132</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

NORTH CAROLINA BOARD OF PHARMACY

EXHIBIT B

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

Page 1 of 2

For the Years Ended September 30, 2006 and 2005

	2006	2005
OPERATING REVENUE:		
Pharmacist renewals	\$ 1,420,043	\$ 1,116,399
Pharmacist reciprocity	154,800	97,200
Pharmacist exam fees	73,480	51,360
Pharmacist/manager changes	16,640	13,675
Pharmacist reinstatements	9,855	9,000
Pharmacy renewals	499,455	407,622
Pharmacy permits	125,800	115,750
Pharmacy reinstatements	1,200	1,650
Technician renewals	237,975	187,269
Technician registrations	76,035	58,275
Technician reinstatements	21,936	9,101
Device and DME permits and renewals	173,900	199,191
Dispensing physician renewals and permits	49,525	28,650
Dispensing PA/NP renewals and permits	16,000	9,600
Pharmacy/pharmacists, lists and labels	26,511	25,707
Law books	684	736
Miscellaneous	2,819	5,018
TOTAL OPERATING REVENUE	2,906,658	2,336,203
OPERATING EXPENSES:		
Salaries	1,191,208	1,002,570
Payroll taxes	88,017	62,081
Retirement contributions	70,217	59,356
Employee benefits	132,473	107,020
Legal fees	361,194	159,087
Pharmacist recovery network	130,000	99,000
Office rent and storage	11,160	11,160
Building dues and maintenance	16,337	17,567
Consulting fee	39,975	25,955
Inspection expense	50,493	31,437
Temporary office help	38,869	46,534
Telephone	24,518	24,591
Postage	34,097	28,833
Board members' professional meetings	17,088	23,718
Executive director's expense	35,894	24,755
Special meetings and projects	34,173	18,170
Insurance	7,497	7,248
Board auto expense	52,391	40,111

The accompanying Notes to Financial Statements are an integral part of these statements.

NORTH CAROLINA BOARD OF PHARMACY

EXHIBIT B

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

Page 2 of 2

For the Years Ended September 30, 2006 and 2005

	2006	2005
OPERATING EXPENSES (CONTINUED):		
Supplies	29,222	34,122
Board members' per diem	14,000	20,000
Books, dues and subscriptions	4,595	5,809
Printing	15,861	12,921
Exam expense	5,457	6,953
Board meeting expense	13,741	13,268
Board election expense	5,259	13,394
Office staff travel	6,621	5,774
Maintenance	10,337	22,872
Renewal forms	14,365	12,583
Janitorial service	14,810	14,540
Exam per diem expense	900	2,600
Office utilities	8,681	7,918
Moving expense	7,999	-
Miscellaneous	2,064	7,888
Interest	57,761	59,894
Depreciation	160,202	164,004
Audit fee	7,550	11,650
Educational expense	415	3,003
Bank service charge	41,405	33,213
Equipment lease	3,961	-
Bad debt	525	-
TOTAL OPERATING EXPENSES	2,761,332	2,241,599
OPERATING INCOME	145,326	94,604
NONOPERATING REVENUE:		
Investment income	47,816	17,564
Gain on sale of fixed assets	4,174	4,260
NET NONOPERATING REVENUE	51,990	21,824
CHANGES IN NET ASSETS	197,316	116,428
NET ASSETS - BEGINNING OF YEAR	1,342,783	1,226,355
NET ASSETS - END OF YEAR	\$ 1,540,099	\$ 1,342,783

The accompanying Notes to Financial Statements are an integral part of these statements.

NORTH CAROLINA BOARD OF PHARMACY

STATEMENTS OF CASH FLOWS

EXHIBIT C

For the Years Ended September 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from fees	\$ 2,903,155	\$ 2,330,449
Other cash received	3,503	5,754
Cash payments to employees for services	(1,203,075)	(1,004,503)
Cash payments for operating expenses	<u>(1,379,788)</u>	<u>(1,074,483)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>323,795</u>	<u>257,217</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(119,951)	(67,495)
Proceeds from the sale of assets	4,174	4,260
Principal payments on note	<u>(47,915)</u>	<u>(45,782)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(163,692)</u>	<u>(109,017)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,852,318)	(524)
Proceeds from sale of investments	1,468,000	-
Proceeds from note receivable	69,994	-
Interest on investments	<u>47,816</u>	<u>17,564</u>
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>(266,508)</u>	<u>17,040</u>
NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS	<u>(106,405)</u>	<u>165,240</u>
CASH AND EQUIVALENTS - BEGINNING OF YEAR	<u>561,375</u>	<u>396,135</u>
CASH AND EQUIVALENTS - END OF YEAR	<u>\$ 454,970</u>	<u>\$ 561,375</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 145,326	\$ 94,604
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	160,202	164,004
Decrease in note receivable	-	2,632
Changes in assets and liabilities		
Prepaid expenses	(3,383)	(568)
Accounts payable	33,517	(1,522)
Accrued vacation	<u>(11,867)</u>	<u>(1,933)</u>
Total adjustments	<u>178,469</u>	<u>162,613</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 323,795</u>	<u>\$ 257,217</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

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NORTH CAROLINA BOARD OF PHARMACY

The North Carolina Board of Pharmacy, (the "Board") was established under Chapter 90 of the North Carolina General Statutes to maintain minimum standards for the practice of pharmacy within the State of North Carolina. The Board's operations are funded primarily through license renewals, permits, and license examination fees.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES**A. Basis of Presentation.**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles and reporting standards. The Board applied all applicable Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

All activities of the Board are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

B. Reporting Entity.

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of North Carolina because the State exercises oversight responsibility in that the Governor formally appoints the Board members - five after their election by North Carolina pharmacists, and one directly as the Board's public member - and public service is rendered within the State's boundaries. The accompanying financial statements present only the activity of the North Carolina Board of Pharmacy. Annually, the State of North Carolina issues general purpose financial statements which include the activity of occupational licensing boards.

C. Basis of Accounting.

In accordance with Statement of Governmental Accounting Standards 34, which the Board implemented in 2003, the Board presents a statement of net assets, a statement of

NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES
(CONTINUED)****C. Basis of Accounting (continued).**

revenues, expenses, and changes in net assets, and a statement of cash flow. These statements reflect entity-wide operations of the Board. The Board has no fiduciary funds or component units.

The statement of revenues, expenses, and changes in net assets demonstrates the degree to which the direct expenses of the Board are offset by license renewal fees and permits.

The financial statements report all activities of the Board using the current financial resource measurement focus and the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized when incurred, if measurable.

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Board. Operating revenues consist primarily of license renewal fees and permits. Non-operating revenues consist of those revenues and expenses that are related to investing types of activities and are classified as non-operating in the financial statements.

D. Cash and Cash Equivalents.

Cash and cash equivalents consist of money on deposit with banks, and money invested in money market accounts, all of which are considered available for current use.

E. Capital Assets.

Capital assets are stated at cost and are being depreciated over their useful lives on a straight-line basis. Capital assets with a cost of \$500 or greater are capitalized. When an asset is disposed of, the cost of the asset and the related accumulated depreciation are removed from the books. Any gain or loss on disposition is reflected in the earnings for the period.

NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES
(CONTINUED)

F. Vacation and Sick Leave.

Board employees may accumulate up to thirty days earned vacation and such leave is fully vested when earned. On December 31, accrued vacation in excess of the limit is transferred and added to sick leave balances.

The Board's sick leave policy provides for an unlimited accumulation of earned sick leave. Since the Board has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

G. Net Assets.

Invested in capital assets: This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Unrestricted net assets: This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets. The Board has reserved \$200,000 of the unrestricted net assets to cover potential litigation costs.

H. Income Taxes.

The Board is a component of the State of North Carolina and is consequently exempt from federal and state income taxes.

I. Use of Estimates.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates, resulting in adjustments in future periods.

NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

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CASH AND CASH EQUIVALENTS

At September 30, 2006 and 2005, the carrying value of cash and cash equivalents totaled \$454,970 and \$561,375, respectively. Bank balances of \$205,229 are fully insured with the federal depository insurance coverage, thus amounts held in deposit greater than insured balances are subject to credit risk. The Board does not have a formal policy on custodial credit risk. The Board considers all highly liquid investments with original maturities of three months or less to be cash and cash equivalents.

INVESTMENTS

Investments consist of certificates of deposit in two financial institutions. The certificates bear interest of 2.1% to 2.6% and mature every three months. This investment is presented at fair value.

CAPITAL ASSETS

Capital asset activity for the Board for the year ended September 30, 2006, was as follows:

	Cost 9/30/05	Increases	Decreases	Cost 9/30/06
Capital assets:				
Building	\$ 1,892,359	\$ -	\$ -	\$ 1,892,359
Building improvements	-	1,012		1,012
Furniture and fixtures	205,643	11,543	1,677	215,509
Equipment	444,039	38,371	45,732	436,678
Vehicles	217,003	75,018	77,447	214,574
 Total at historical cost	 2,759,044	 125,944	 124,856	 2,760,132
 Less accumulated depreciation for:				
Building	\$ 109,175	\$ 48,522	\$ -	\$ 157,697
Building improvements	-	15	-	15
Furniture and fixtures	86,881	26,143	1,677	111,347
Equipment	324,609	54,808	45,732	333,685
Vehicles	152,175	30,713	77,447	105,441
 Total accumulated depreciation	 672,840	 160,201	 124,856	 708,185
 Total capital assets, net	 \$ 2,086,204	 \$ (34,257)	 \$ -	 \$ 2,051,947

NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

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CAPITAL ASSETS (CONTINUED)

Capital asset activity for the Board for the year ended September 30, 2005, was as follows:

	Cost 9/30/04	Increases	Decreases	Cost 9/30/05
Capital assets:				
Building	\$ 1,892,359	\$ -	\$ -	\$ 1,892,359
Furniture and fixtures	204,947	696	-	205,643
Equipment	421,161	33,491	10,613	444,039
Vehicles	226,807	33,308	43,112	217,003
 Total at historical cost	 2,745,274	 67,495	 53,725	 2,759,044
 Less accumulated depreciation for:				
Building	\$ 60,653	\$ 48,522	\$ -	\$ 109,175
Furniture and fixtures	60,591	26,290	-	86,881
Equipment	266,489	68,733	10,613	324,609
Vehicles	174,828	20,459	43,112	152,175
 Total accumulated depreciation	 562,561	 164,004	 53,725	 672,840
 Total capital assets, net	 \$ 2,182,713	 \$ (96,509)	 \$ -	 \$ 2,086,204

NOTE RECEIVABLE

In December 1989, the Board entered into a split-dollar life insurance agreement with its executive director, who was the insured and owner of the policy. The policy owner paid a portion of the premium equal to the value of the economic benefit determined in accordance with applicable IRS revenue rulings. The Board paid the balance of the premium.

The agreement provided the Board be entitled to recover the amount of premiums paid out of the build-up cash value upon termination of the agreement or out of the proceeds upon the death of the insured. As security for repayment, the Board was collateral assignee of the policy to the extent of any such unreimbursed premium.

NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

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NOTE RECEIVABLE (CONTINUED)

Effective January 1, 2004, the Internal Revenue Service changed the requirements for split-dollar life insurance agreements. At that date, the cash surrender value recorded on the financial statements was converted to a note receivable from the insured. In April 2006, the life insurance agreement was transferred to the previous executive director upon his retirement.

NOTE PAYABLE

The Board borrowed \$1,384,000 during the 2003 fiscal year to purchase their current office condominium. The note has a fixed interest rate of 4.5% and requires 59 monthly installments of \$8,806, with final payment due of all unpaid principal and interest on July 2, 2008.

	2006	2005
Note payable at September 30,	\$ 1,240,000	\$ 1,287,915
Less current portion	<u>(50,157)</u>	<u>(47,924)</u>
Long-term portion at September 30,	<u><u>\$ 1,189,843</u></u>	<u><u>\$ 1,239,991</u></u>

Principal maturities are as follows:

<u>Year ending September 30,</u>	
2007	\$ 50,157
2008	<u>1,189,843</u>
	<u><u>\$ 1,240,000</u></u>

OFFICE SPACE LEASE

The Board leases office space in Newton, North Carolina, under a one year operating lease which expires June 30, 2007. Rental expense for the year ended September 30, 2006, was \$9,600. Future obligations under the lease through September 30, 2007, total \$7,200.

OPERATING LEASE

The Board leases a folding machine under an agreement that expires November 2009. Monthly rent is \$357. Rental expense for the years September 30, 2006 and 2005, was \$3,961 and \$0, respectively.

NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

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OPERATING LEASE (CONTINUED)

Future minimum lease payments are as follows:

<u>Year ending September 30,</u>	
2007	\$ 4,286
2008	4,286
2009	4,286
2010	<u>714</u>
	<u><u>\$ 13,572</u></u>

RETIREMENT PLAN

A. North Carolina Licensing Boards Retirement Savings Plan.

The Board contributes to the North Carolina Licensing Boards Retirement Savings Plan ("Plan"), a defined contribution plan. The Plan has been established to provide retirement benefits for employees of eight State boards or agencies who have not elected by resolution to cause their employees to be eligible to become members of the Teachers' and State Employees' Retirement System and for employees hired after July 1, 1983, by an electing board or agency. The Plan is administered by an administrative committee with authority to amend the Plan, comprised of the executive directors of the participating boards and agencies.

Participating employees must contribute at least six percent of their gross compensation and the Board matches those contributions 100%. The employees' contributions are immediately 100% vested; the Board's matching contributions are 100% vested after five years of credited service. For vesting purposes, an employee must complete 1,000 hours of service each Plan year.

Each participant's account is credited with their individual contributions, the Board's matching contributions and Plan earnings and forfeitures of terminated participants' non-vested accounts. Allocations are based on participant earnings and account balances, as defined. Each participant is entitled to the benefit which can be provided from the participant's account.

NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

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RETIREMENT PLAN (CONTINUED)

Participants may retire with fully vested benefits at age 65, or at age 55 after completing five years of service. Upon termination of service, participants receive the vested value of their account in a lump-sum distribution.

Contributions to the Plan for the years ended September 30, 2006 and 2005, totaled \$111,928 and \$86,025, which consisted of \$50,371 and \$40,782, from the Board and \$61,557 and \$45,243, from employees, respectively.

B. Teacher's and State Employees' Retirement System.

For employees employed prior to July 1, 1983, the Board contributes to the statewide Teachers' and State Employees' Retirement System ("TSERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. TSERS provides retirement benefits to plan members and beneficiaries. Article 1 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Teachers' and State Employees' Retirement System is included in the Comprehensive Annual Financial Report ("CAFR") for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for TSERS. That report may be obtained in writing from the Office of State Controller, 3512 Bush Street, Raleigh, North Carolina, 27609, or by calling (919) 981-5454.

Plan members are required to contribute 6% of their annual covered salary and the Board is required to contribute at an actuarially determined rate. The rate was 6.82% of payroll as of September 30, 2006. The contribution requirements of plan members and the Board is established and may be amended by the North Carolina General Assembly. Contributions to the Plan for the years ended September 30, 2006 and 2005, totaled \$37,159 and \$36,963, which consisted of \$19,846 and \$18,573, from the Board and \$17,313 and \$18,390, from employees, respectively.

RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board protects itself from exposures to loss through the purchase of commercial liability insurance. Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides an additional \$5,000,000 public officers' and employees' liability insurance via contract with a private insurance company.



NORTH CAROLINA BOARD OF PHARMACY

NOTES TO FINANCIAL STATEMENTS

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RECLASSIFICATIONS

Certain items in the September 30, 2005, report have been reclassified to conform to current year classifications. Such reclassifications have no effect on previously reported net assets.

This item circulates for a 4-week period and is due on
the last date stamped below. The fine
for late return is 50¢ a day.

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